

## Message Text

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ACTION EUR-12

INFO OCT-01 IO-10 ISO-00 CIAE-00 DODE-00 PM-03 H-02 INR-07

L-02 NSAE-00 NSC-05 PA-02 PRS-01 SP-02 SS-15 USIA-15

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R 161446Z MAY 75

FM AMEMBASSY COPENHAGEN

TO SECSTATE WASHDC 919

INFO AMEMBASSY BONN

AMEMBASSY BRUSSELS

USMISSION EC BRUSSELS

AMEMBASSY DUBLIN

AMEMBASSY THE HABUE

AMEMBASSY LONDON

AMEMBASSY LUXEMBOURG

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

USMISSION MTN GENEVA

USMISSION NATO

UNCLAS COPENHAGEN 1415

E.O. 11652: N/A

TAGS: ECON, EFIN, DA

SUBJECT: ECONOMIC ADVISERS FORECAST ZERO GROWTH IN 1975

SUMMARY. DANISH COUNCIL OF ECONOMIC ADVISERS FORECAST ZERO GROWTH FOR DENMARK IN 1975 BUT SEE PROSPECTS FOR MODERATE RECOVERY IN 1976, WITH POSSIBLY 4 PERCENT GROWTH. THEY DO NOT EXPECT MUCH IMPROVEMENT IN EMPLOYMENT IN 1976, HOWEVER. WITH STAGNANT EXPORTS AND FURTHER DECLINING IMPORTS IN 1975, THE BALANCE OF PAYMENT MAY APPROACH EQUILIBRIUM ON CURRENT ACCOUNT.

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THE MODERATE EXPANSION EXPECTED NEXT YEAR WILL PROBABLY BOOST

IMPORTS AND PRODUCE ANOTHER, THOUGH MODERATE, PAYMENTS  
DEFICIT. END SUMMARY.

1. THE DANISH COUNCIL OF ECONOMIC ADVISERS, CHAIRED BY  
PROFESSOR ANDERS OLGAARD, SEES NO IMMEDIATE IMPROVEMENT IN THE  
PRESENT DEPRESSED STATE OF THE DANISH ECONOMY. AS IN 1974,  
THE COUNCIL EXPECTS A CLOSE TO ZERO GROWTH RATE FOR 1975.  
GIVEN UNCHANGED ECONOMIC POLICIES, ITS PRELIMINARY FORECAST  
FOR 1976 INDICATES MODERATE RECOVERY AND A 4 PERCENT GROWTH  
RATE THAT YEAR.

2. THE COUNCIL BELIEVES THAT ACTION TAKEN ON TAX RELIEF AND  
CONTINUING PRICE MODERATION SHOULD BOOST CONSUMER DEMAND BY  
5 - 6 PERCENT IN BOTH 1975 AND 1976, WHILE EXPECTING PUBLIC  
OUTLAYS TO INCREASE BY 2 PERCENT BOTH YEARS.

3. THE INVESTMENT PICTURE IS SEEN AS VERY GLOOMY. HOME  
BUILDING ACTIVITY WHICH FELL 22 PERCENT IN 1974 WILL PROBABLY  
DROP ANOTHER 35 PERCENT IN 1975 AT WHICH POINT IS SHOULD  
BOTTOM (AT HALF THE 1973 PEAK LEVEL) AND MAY EXPAND BY 10  
PERCENT IN 1976. BUSINESS INVESTMENT, STAGNANT LAST YEAR,  
MAY DROP 10 PERCENT IN 1975 WITH DIM PROSPECTS FOR RECOVERY.  
THE COUNCIL CAUTIOUSLY ESTIMATES A 3 PERCENT RISE IN 1976.

4. AS OTHER COUNTRIES, DENMARK EXPERIENCED RISING TRADE AND  
PAYMENTS DEFICITS FOLLOWING THE OIL CRISIS, BUT THE SITUATION  
WAS MITIGATED BY FAVORABLE EXPORT DEVELOPMENTS WHILE IMPORT  
VOLUMES DECLINED. THE COUNCIL DOES NOT, IN VIEW OF  
SLACK DEMAND ABROAD, EXPECT THIS TREND TO CONTINUE. IT  
FORECASTS ONLY A NOMINAL REAL GROWTH OF EXPORTS IN 1975 AND A  
MODERATE GROWTH OF 4 PERCENT IN 1976. CONVERSELY, IT EXPECTS  
IMPORTS TO BOTTOM IN 1975 WITH A DECLINE, AS IN 1974, OF 5 - 6  
PERCENT, BUT THEN EXPECTS THE UP-SWING OF THE ECONOMY BEGINNING  
IN 1976 TO BOOST IMPORTS BY 8 PERCENT.

5. DENMARK INCURRED AN APPROXIMATELY \$1 BILLION BALANCE  
OF PAYMENTS DEFICIT (CURRENT ACCOUNT) IN 1974, TWICE AS MUCH AS  
1973. ABOUT ONE THIRD OF THE DEFICIT, HOWEVER, WAS ACCOUNTED  
FOR BY INTEREST PAYMENTS AND TRANSFERS, REDUCING THE DEFICIT  
ON THE TRADE AND SERVICE BALANCE TO ABOUT \$675 MILLION. IN THE  
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OPINION OF THE COUNCIL, THE TRADE AND SERVICE BALANCE WILL BE  
IN EQUILIBRIUM IN 1975 AND SHOW A VERY MODERATE DEFICIT IN 1976  
OF ABOUT \$200 MILLION. NET INTEREST PAYMENTS AND TRANSFERS  
ABROAD SHOULD CONTINUE TO RISE, REACHING A LEVEL OF ABOUT \$400-  
\$500 MILLION EACH YEAR.

6. THE COUNCIL FORECASTS A SIGNIFICANT REDUCTION IN THE RATE OF  
INFLATION. WHILE CONSUMER PRICES ROSE 15.5 PERCENT IN 1974, THE

COUNCIL ESTIMATES PRICE RISES OF 10 PERCENT AND 6-7 PERCENT, RESPECTIVELY, IN 1975 AND 1976. HOURLY INDUSTRIAL WAGE RATES, WHICH CLIMBED 22 PERCENT IN 1974, ARE SEEN TO GO UP 16 PERCENT IN 1975 AND ONLY 8 PERCENT IN 1976. THESE CEA ESTIMATES IMPLY A REDUCTION IN THE OVERALL RATE OF INFLATION (GNP DEFLATOR) FROM 13 PERCENT IN 1974 TO 10 PERCENT IN 1975 AND 7 PERCENT IN 1976.

7. EMBASSY COMMENT. THE ECONOMIC ADVISERS QUALIFY THEIR FORECASTS, PARTICULARLY FOR 1976, WITH REGARD BOTH TO INTERNATIONAL UNCERTAINTIES AND THE ASSUMPTION THAT GOVERNMENT POLICY NOT CHANGE, I.E., THAT THE DANISH GOVERNMENT DOES NOT INSTIGATE MEASURES TO COMBAT UNEMPLOYMENT WHICH MIGHT UPSET THE EXTERNAL BALANCE NEARLY ATTAINED. ON THE OTHER HAND, PRESENT TRENDS DO NOT SHOW ANY MATERIAL GROWTH IN CONSUMER DEMAND WHICH MUST, THEREFORE, RISE SUBSTANTIALLY LATER THIS YEAR TO STIMULATE THE ECONOMY BY THE 5-6 PERCENT ANNUAL GROWTH RATE ESTIMATED BY THE COUNCIL. CONVERSELY, THE COUNCIL'S FORECAST ON BALANCE OF PAYMENTS DEVELOPMENTS IN 1975 SEEM CAUTIOUS. IF PRESENT TRENDS CONTINUE, TRADE AND SERVICES MAY PROVIDE A SUPPLUS TO OFFSET, AT LEAST IN PART, THE NET EXPENSE OF INTEREST AND TRANSFER PAYMENTS. WE ALSO BELIEVE THE COUNCIL'S INFLATION ESTIMATE TO BE SLIGHTLY ON THE LOW SIDE, PARTICULARLY WITH REGARD TO WAGES.  
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